

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 L-03 H-02 PA-02 PRS-01 /109 W
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P R 240850Z MAR 77

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 6379

TREASURY DEPT WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

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PASS CEA, FEDERAL RESERVE, COMMERCE AND LABOR

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS -- MAR 17-24

1. SUMMARY: FEB BALANCE OF PAYMENTS DATA SHOW CONTINUING SEASONALLY ADJUSTED CURRENT ACCOUNT SURPLUS, AND YEN HAS APPRECIATED ON FOREX MARKETS DURING PAST WEEK. FISCAL 77 BUDGET PASSES LOWER HOUSE AND IS LIKELY TO BECOME EFFECTIVE AROUND MID-APRIL. SHORT-TERM INTEREST RATES CONTINUE TO BE REDUCED, BUT GOVT OFFICIALS REJECT BANKERS' PLEAS FOR LOWER POSTAL SAVINGS IN TEREST RATES. DEPARTMENT STORE SALES DECLINE SLIGHTLY IN FEB; JAN LABOR MARKET CONDITIONS SHOW LITTLE CHANGE FROM PRIOR MONTH. RECENT SURVEYS INDICATE CORPORATE PROFIT CONDITIONS LIKLEY TO DETERIORATE IN APRIL-SEP 77 SEMESTER. END SUMMARY.

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2. FEB BALANCE OF PAYMENTS DATA RELEASED LAST THURSDAY SHOWED JAPAN'S LARGE SEASONALLY ADJUSTED CURRENT ACCOUNT SURPLUS IS CONTINUING, AND YEN APPRECIATED ON FOREX MARKETS IN SUCCEEDING DAYS. ALTHOUGH SEASONALLY ADJUSTED EXPORTS IN FEB DECLINED FROM PRIOR MONTH, IMPORTS, REFLECTING STAGNATION OF DOMESTIC DEMAND, DROPPED BY EVEN LARGER PERCENTAGE. WITH MOST

SURVEYS GIVING NO SIGN OF EARLY BUSINESS UPTURN, ANNOUNCEMENT OF RATYR SURPRISINGLY LARGE FEB SURPLUS BEGAN TO HAVE ITS IMPACT IN FOREX MARKET ACTIVITY. APPRECIATION ON FRIDAY, MARCH 18, WAS MODEST. HOWEVER, SATURDAY A.M. NEWS ITEM IMPLYING THAT GOVT OFFICIALS NOW ANTICIPATE FY 77 CURRENT ACCOUNT SURPLUS INSTEAD OF SMALL DEFICIT PROJECTED IN INITIAL GOJ FORECAST FOR FISCAL YEAR, AND STATING THAT JAPAN THEREFORE WOULD TELL U.S. AT SUMMIT MEETING THAT YEN WOULD BE ALLOWED TO APPRECIATE TO AS MUCH AS YEN 270 PER DOLLAR, APPEARS TO HAVE CONTRIBUTED TO UPWARD PRESSURE ON YEN. WITH MONDAY A JAPANESE HOLIDAY, INITIAL REACTION TO NEWS STORY WAS ON EUROPEAN EXCHANGES. WHEN TOKYO MARKET OPENED ON TUESDAY, YEN QUICKLY APPRECIATED TO 279.7 PER DOLLAR AND HAS CONTINUED TO STRENGTHEN ON FOLLOWING DAYS. NIHON KEIZAI REPORT THURSDAY, MARCH 24, CITES HIGH MOF OFFICIAL AS SAQING HE DOES NOT THINK RECENT YEN APPRECIATION IS TEMPORARY PHENOMEN ON AND THAT JAPAN IS LIKELY TO RECORD BALANCE OF PAYMENTS SURPLUSES IN MARCH. FOLLOWING TABLE SHOWS JAPAN'S TRADE AND CURRENT ACCOUNT BALANCES SEASONALLY ADJUSTED IN MIL DOLLARS FOR JAN AND FEB 77. FURTHER DETAILS ON FEB BALANCE OF PAYMENTS STATISTICS REPORTED TOKYO 3789 NOTAL.

	JAN	FEB
EXPORTS	6418	6347
IMPORTS	MIN 5116	MIN 4953
TRADE BALANCE	1302	1394
SERVICES AND TRANSFERS (1)	MIN 585	600
CURRENT ACCOUNT	717	794

NOTE (1) NOT SEASONALLY ADJUSTED.

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3. JAPAN'S FISCAL 77 BUDGET WAS PASSED BY LOWER HOUSE PLENARY SESSION FRIDAY NIGHT MARCH 18 BY MAJORITY VOTE AND AAS IMMEDIATELY SENT TO THE HOUSE OF COUNCILLORS FOR ACTION. THE VOTE WAS 299 FOR AND 193 AGAINST WITH BUDGET RECEIVING SUPPORT OF ALL LIBERAL DEMOCRATS, DEMOCRATIC SOCIALISTS AND NEW LIBERAL CLUB MEMBERS. UNDER JAPANESE CONSTITUTION APPROVAL OF NATIONAL BUDGET BY DIET BECOMES EFFECTIVE UPON APPROVAL OF HOUSE OF COUNCILLORS OR 30 AYS AFTER APPROVAL BY LOWER HOUSE WHETYR OR NOT HOUSE OF COUNCILLORS APPROVES IT IF, AS IS EXPECTED, DIET REMAINS IN SESSION. CABINET BILLS PROVIDING YEN 353 BILLION IN PERSONAL INCOME TAX REDUCTIONS AND YEN 79 BIL IN LOCAL GOVT TAX CUTS REMAIN UNDER DISCUSSION IN BOTH HOUSES. BILL PROVIDING ADDITIONAL TAX CUTS NEGOTIATED BETWEEN GOVT AND OOPOSITION PARTIES WILL BE INTRODUCED IN LOWER HOUSE LATER. TAX REDUCTION MEASURES MUST RECEIVE APPROVAL IN BOTH LOWER AND UPPER HOUSE IN ORDER TO BECOME LAW BUT MAJORITY VOTE IN THE CHAMBER IS EXPECTED.

4. VARIOUS SHORT-TERM INTEREST RATES CONTINUE TO BE

REDUCED IN WAKE OF MARCH 12 CUT IN BANK OF JAPAN (BOJ)
DISCOUNT RATE. FINANCE MINISTRY LOWERED YIELD TO SUB-
SCRIBERS ON TWO-MONTH GOJ BILLS BY 0.127 PERCENT TO 5.55
PERCENT PER ANNUM EFFECTIVE MARCH 18 ISSUE. THIS WAS FIRST
SUCH YIELD REDUCTION SINCE OCT 75. TOSHIO NAKAMURA,
CHAIRMAN OF THE FEDERATION OF BANKERS ASSOCIATIONS, SAID
HE HOPES GOVT WILL LOWER INTEREST RATES ON POSTAL SAVINGS
IN LINE WITH 0.5 PERCENT CUT IN INTEREST ON BANK DEPOSITS
PLANNED FOR NEXT MONTH. A PANEL OF ADVISORS TO BOJ IS
EXPECTED TO RECOMMEND SHORTLY. A 0.5 PERCENT REDUCTION
IN INTEREST RATES ON DEMAND DEPOSITS. THE EXPECTED
REDUCTION WOULD LOWER ANNUAL INTEREST PAID FOR ORDINARY
COMMERCIAL BANK DEPOSITS TO 2 PERCENT, MUCH LESS THAN
THE 3.84 PERCENT INTEREST RATE PAID ON ORDINARY POSTAL
SAVINGS DEPOSITS. FINANCE MINISTER HIDEO BOH AND POST AND
TELECOMMUNICATIONS VICE MINISTER JUSHIRO KOMIYAMA HAVE BOTH
SAID THEY HAVE NO PLANS TO LOWER POSTAL SAVINGS INTEREST
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RATES.

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INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
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P R 240850Z MAR 77

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 6380

TREASURY DEPT WASHDC PRIORITY

INFO AMEMBASSY BONN

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5. INDEX OF DEPARTMENT STORE SALES FELL SLIGHTLY IN FEB TO REGISTER THIRD DECLINE IN FOUR MONTHS. DESPITE LARGE INCREASE IN SALES OF HOUSEWARES FOR SECOND MONTH IN ROW AND MODERATE RISE IN SALES OF FOOD, AND BEVERAGES SHARP DECLINE IN CLOTHING SALES WIPED OUT MUCH OF STRONG ADVANCE RECORDED BY OVERALL INDEX IN JAN. OVER THE PAST SIX MONTHS, DEPARTMENT STORE SALES INDEX (JEI 302) HAS INCREASED AT SLIGHTLY LESS THAN 7 PERCENT ANNUAL RATE, A SLOWER PACE THAN RATE OF CONSUMER PRICE INFLATION.

INDEX, 1970 EQUALS 100, S.A. PERCENT CHANGE		
FROM PRIOR MONTH		
1976 NOV	250.3	MIN 1.5
DEC	246.4	MIN 1.6
1977 JAN	263.5	6.9
FEB	257.9	MIN 2.1

6. LABOR MARKET CONDITIONS SHOW LITTLE CHANGE IN JAN AFTER UNCLASSIFIED

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IMPROVEMENT RECORDED LAST DEC. THE NUMBER OF UNEMPLOYED IN JAN 1977, THROUGH UP SLIGHTLY FROM PRIOR MONTH, DID NOT TOP 1 MIL LEVEL, REMAINING ABOUT 7 PERCENT BELOW CY 76 AVERAGE. JAN UNEMPLOYMENT RATE, SEASONALLY ADJUSTED, WAS SAME AS IN DEC 76. (NOTE: PRIME MINISTER'S OFFICE, USING DIFFERENT SEASONAL FACTORS THAN EPA, REPORTED THAT JAN 1977 UNEMPLOYMENT RATE WAS 1.86 PERCENT.) IN NOV 1976 THE LATEST MONTH FOR WHICH DATA AVAILABLE, INDEX OF LABOR PRODUCTIVITY IN MACHINERY INDUSTRY, SEASONALLY ADJUSTED, ROSE SHARPLY. OTHER LABOR-RELATED INDICES FOR JAN 77 HAVE NOT YET BEEN RELEASED FROM EPA DUE TO DELAY RESULTING FROM CUSTOMARY REVISION FOR ENTIRE 1976 AT THE BEGINNING OF THE NEW YEAR.

		1976	1977
JEI NO.	SERIES (UNIT)	NOV	DEC JAN
378	UNEMPLOYED (THOUSANDS)	1070	980 1000
379	UNEMPLOYMENT RATE (PERCENT)	2.0	1.8 1.8
N/A	LABOR PRODUCTIVITY	SEPT	OCT NOV
	MACHINERY (1970 EQUALS 100)	168.2	166.2 173.4

NOTE: ALL SERIES ARE SEASONALLY ADJUSTED BY EPA.

7.

7. RECENT SURVEYS BY TWO WELL-KNOWN ECONOMIC RESEARCH INSTITUTIONS INDICATE CORPORATE PROFIT CONDITIONS IN JAPAN WILL DETERIORATE DURING ACCOUNTING SEMESTER ENDING SEP 77. CORPORATE PROFITS, WHICH DECLINED SHARPLY AFTER ONSET OF 1974-75 RECESSION, HAVE REGISTERED A HEALTHY RECOVERY BEGINNING WITH SEP 75-MAR 76 SEMESTER. A SURVEY OF 100

MAJOR ENTERPRISES LISTED ON FIRST SECTION OF TOKYO STOCK EXCHANGE CONDUCTED AROUND MARCH 77 BY NIHON KEIZAI SHIMBUN, NATION'S MAJOR ECONOMIC NEWSPAPER, SHOWS THESE ENTERPRISES PREDICT SMALLER SALES INCREASES DURING APRIL-SEP 77 TERM THAN IN CURRENT SEMESTER. CURRENT PROFITS ARE PROJECTED TO RECORD FIRST DECLINE IN TWO YEARS DURING APRIL-SEP 77 TERM. IRON AND STEEL INDUSTRY, WHICH IS EXPECTED TO ANNOUNCE SHARP UNCLASSIFIED

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INCREASE IN PROFITS FOR CURRENT TERM, IS PREDICTED TO REGISTER LOSS IN SUCCEEDING APRIL-SEP 77 PERIOD. EXPORT-RELATED INDUSTRIES SUCH AS AUTO AND ELECTRIC EQUIPMENT MANUFACTURERS EXPECT THEIR PROFITS TO REMAIN UNCHANGED OR TO DECLINE SLIGHTLY FROM CURRENT TERM. AN INDEPENDENT SURVEY OF 140 MAJOR FIRMS IN 20 INDUSTRIES BY RESEARCH DEPT OF SANWA BANK, NATION'S FIFTH LARGEST, CITY BANK ALSO PREDICTED DETERIORATION IN CORPORATE PROFITS OUTLOOK IN COMING APR-SEP TERM. ADVERSE EFFECT OF INCREASED PRODUCTION COSTS IS EXPECTED TO OUTWEIGH MODEST GAINS ANTICIPATED IN SALES TO DOMESTIC MARKETS.

8. EXPORT CONTRACT PRICE INDEX (JEI 80, 1970 EQUALS 100, N.S.A.) DECLINED IN FEB FOR THIRD CONSECUTIVE MONTH TO 137.7 IMPORT CONTRACT PRICE INDEX (JEI 88), ON THE OTHER HAND, ROSE FOR SECOND CONSECUTIVE MONTH TO 215.1 DESPITE APPRECIATION OF YEN FROM JAN LEVEL.
BUTTON

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Message Attributes

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